



Oncor Franchise Fee Audit

Craig Hametner, CPA, CIA, CMA, CFE
City Auditor

Prepared By

J Stowe & Co - Connie Cannady
Consultant

INTERNAL AUDIT DEPARTMENT

February 8, 2011
Report 201137

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Authorization

Information on this audit came from the City Attorney's Office and it was presented to the Audit Committee Chair and Senior Management which gave the go ahead to have the audit done by J. Stowe & Co.

Objective

The analysis incorporated three distinct objectives.

- First, the audit focused on the fluctuations in franchise fee payments during the review period and whether these fluctuations could be sufficiently explained.
- Second, identified errors in the franchise fee computations.
- Third, focused on the manner in which franchise fees related to discretionary service charges are being paid and the recent impacts that Oncor's changes to these rates are having, or will have, on the amount of franchise fees received by the City.

Scope and Methodology

J Stowe & Co conducted the Oncor Franchise Fees audit (J Stowe & Co Attachment). City of Garland was added to a coalition that consisted of the Cities of Allen, Belton, Big Spring, Brownwood, Burkburnett, Carrollton, Euless, Flower Mound, Fort Worth, Haltom City, Lewisville, McKinney, Midland, Richland Hills, Rockwall, Rowlett, Sweetwater, and Waco.

Ms. Connie Cannady, conducted the analysis. She completed numerous studies to assist franchising authorities in determining franchise fee computational compliance. Ms. Cannady is highly qualified to provide assistance to the Cities based on the following:

- Over twenty-five (25+) years of experience in dealing with franchising and regulatory issues before various governmental entities concerning utility services;
- Significant experience in evaluating performance aspects of utility service providers; and
- Significant experience in assisting municipalities negotiate with service providers regarding franchise fees, service levels, service rates and other franchise requirements.

Ms. Cannady was hired as a highly qualified subject matter expert in this area and is free of any personal impairment, and is independent to audit and report objectively.

Overall Conclusion

The overall conclusion is that J Stowe & Co recommends the following:

1. Request remittance from Oncor of \$2,710 for the exclusion of franchise fee revenue received from customers/developer associated with CIAC;
2. Discuss with Oncor an amendment to the current franchise to ensure that all new discretionary service charge revenue is included, to the extent that the service is paid directly by the customer;
3. Have Oncor provide the discretionary service charges received in 1998 to estimate the impact on the statutory factor; and,
4. Discuss with Oncor the possibility of amending the Franchise Agreement to include a change in the current statutory factor based on inclusion of discretionary service charges received in 1998.

Background

Oncor provides Electricity to 15% of Garland Residents. GP&L has the other 85% of residents.

Oncor pays franchise fees on an annual basis. The following are the franchise fee payments made by Oncor:

- | | |
|-----------|----------------|
| • FY 2008 | \$1,271,676.68 |
| • FY 2009 | \$1,243,499.84 |
| • FY 2010 | \$1,229,695.44 |

**J STOWE & CO
ATTACHMENT**

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December 14, 2010

Mr. Craig Hametner
City Auditor City
of Garland P.O.
Box 469002
Garland, Texas 75046

Dear Mr. Hametner:

J. Stowe & Co, LLC. ("J. Stowe & Co.") provides the following report of a review of the electric service franchise fees received by the City of Garland, Texas, ("City") from Oncor Electric Delivery Company ("Oncor" or the "Company") for the period July 1, 2008 through June 1, 2010.¹ The report provides a brief discussion of the activities performed, the issues noted during the review, and a preliminary estimate of any additional franchise fees due to the City from Oncor, if applicable.

This study does not constitute an examination of the financial condition of Oncor and/or its parent company. Therefore, J. Stowe & Co. does not express any position with regard to the accuracy or validity of the financial information provided by Oncor during the course of the analyses.

PROJECT ACTIVITIES

J. Stowe & Co. conducted the following activities:

- Review of the basis on which franchise fees are to be remitted to the City;
- Review of information provided by Oncor in response to several requests for information concerning financial and operational data ;
- Review of franchise fee computation workpapers provided by Oncor including historical kWh usage and discretionary service charge revenues;
- On-site review of Oncor's records as they relate to the payment of franchise fees;
- Review of historical electricity use during the review period, by customer class correlated with regional weather data;
- Review of the basis for establishment of current kWh franchise fee factor;
- Review of historical annexation reports compiled by Texas State Comptroller; and,
- Review of Oncor's reductions to discretionary charges in PUC Docket No. 35717 and subsequent filings.

¹ With respect to the Discretionary Service Charges, the review period was January 2008 through December 2009.

BASIS FOR FRANCHISE FEE PAYMENTS

In December of 2002, the City amended its current franchise agreement with Oncor and this amendment (Ordinance No. 5687) currently governs the payment of franchise fees by the Company to the City. Specifically, Section 1 of this amendment states:

Effective January 1, 2002, the franchise fee due from Oncor shall be a sum comprised of the following:

- (1) A charge, as authorized by Section 33.008(b) of PURA, based on each kilowatt hour of electricity delivered by Oncor to each retail customer whose consuming facility's point of delivery is located within the City's municipal boundaries and as specified by Oncor to the City by letter dated January 21, 2002.
- (2) A sum equal to four percent (4%) of gross revenues received by Oncor from services identified in its "Tariff for Retail Delivery Service," Section 6.12, "Discretionary Service Charges," items DD1 through DD24, that are for the account or benefit of an end-use retail electric consumer.

This amendment to the franchise agreement mirrors Section 33.008(b) of PURA which states:

"the municipality . . . is entitled to collect from each electric utility, transmission and distribution utility . . . that uses the municipality's streets, alleys, or public ways to provide distribution service a charge based on each kilowatt hour of electricity delivered by the utility to each retail customer whose consuming facility's point of delivery is located within the municipality's boundaries. The charge imposed shall be equal to the total electric franchise fee revenue due the municipality from electric utilities . . . for calendar year 1998 divided by the total kilowatt hours delivered during 1998 by the applicable electric utility . . . The compensation a municipality may collect from each electric utility . . . shall be equal to the charge per kilowatt hour determined for 1998 multiplied times the number of kilowatt hours delivered within the municipality's boundaries. "

Section 33.008(e) of the Texas Utilities Code also authorizes a municipality to conduct an audit or other inquiry of franchise fee payments by an electric utility, but limits such inquiry to payments made within two years from the date of the inquiry.

SUMMARY OF FINDINGS

The analysis incorporated three distinct objectives. First, we focused on the fluctuations in franchise fee payments during the review period and whether these fluctuations could be sufficiently explained. Second, we identified errors in the franchise fee computations. And finally, we focused on the manner in which franchise fees related to discretionary service charges are being paid and the recent impacts that Oncor's changes to these rates are having, or will have, on the amount of franchise fees received by the City.

Mr. Craig Hametner

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Based on these objectives, our analysis showed that the large fluctuations in franchise fee amounts are not due to computation errors by Oncor, as Oncor is primarily in compliance with the provisions governing the calculation and payment of franchise fees. More specifically, the following observations were noted during the conduct of the review which require further explanation with Items 2-5 potentially requiring action on the part of the City:

1. Changes in the temperature largely explain the impact on the fluctuations in the amount of franchise fees remitted during the review period;
2. Oncor has failed to pay franchise fees on the fees collected from contributions in aid of construction ("fee on fee");
3. Oncor's changes to its discretionary service charges are resulting in a reduction in franchise fee payments to the City;
4. Oncor has added new discretionary service charges which are not included in the computation of franchise fees; and
5. The franchise fee factor computed in accordance with PURA, Section 33.008(e) should be adjusted to reflect the discretionary service charges that should have been included for payment in 1998.

The following discusses the above observations in more detail:

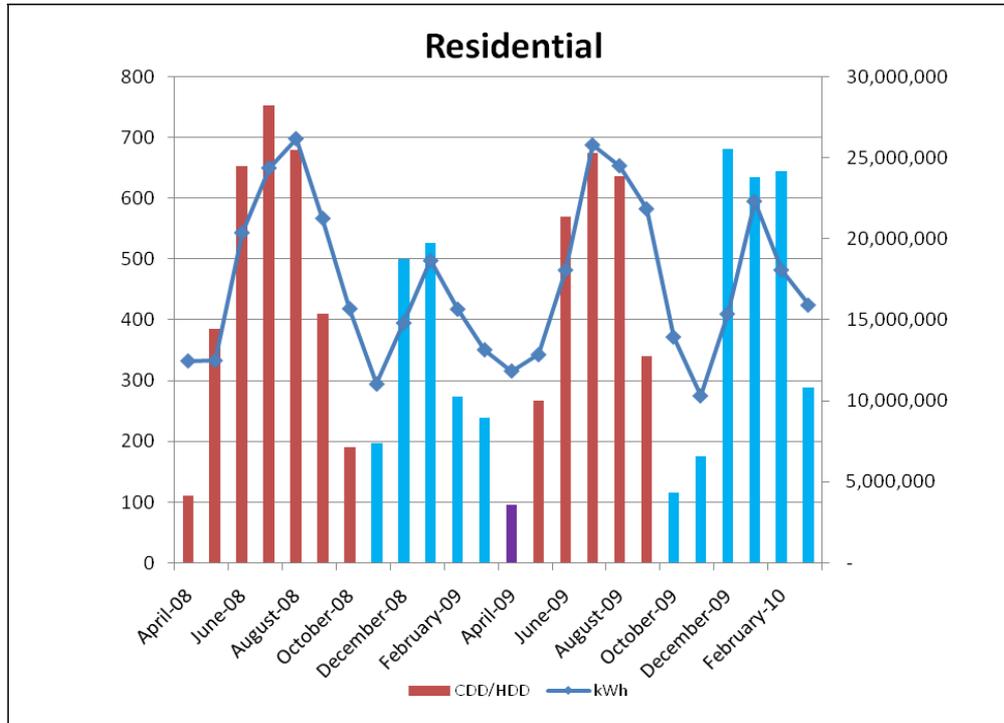
1. Impact of Temperature on kWh Sales

J. Stowe & Co. reviewed the total kWh and kWh by customer class provided by Oncor. The summation of the class values is equivalent to the totals provided by the Company and, when the appropriate kWh factor is applied, results in the payment(s) made by the Company.

We noted that temperature can have a measurable impact on electric consumption, which in turn directly influences the amount of electric franchise fee revenue received by the City. For example, the City's franchise fee revenues are measurably higher during the summer months of July, August, and September. To demonstrate these impacts, monthly electric consumption was analyzed by residential and commercial customer classes (e.g. General Service Small Secondary, General Service Large Secondary). Temperature data in the form of cooling and heating degree days was obtained through the National Oceanic & Atmospheric Administration's National ("NOAA") Climatic Data Center.

Cooling and heating degree days measure the magnitude of temperature change from a baseline of 65° F. Cooling and heating degree days are commonly used in the electric industry in estimating electrical demands. For example, the higher the amount of cooling and heating degree days, the more energy that will potentially be demanded. Monthly cooling and heating degree days were compared to monthly electric consumption for residential and commercial customer classes. As illustrated in the chart below comparing residential electric consumption (kWh) to the cooling and heating degree days (CDD/HDD), there is a correlation between the

change in cooling and heating degree days from 2008 to 2009 and electric consumption over the same time period.

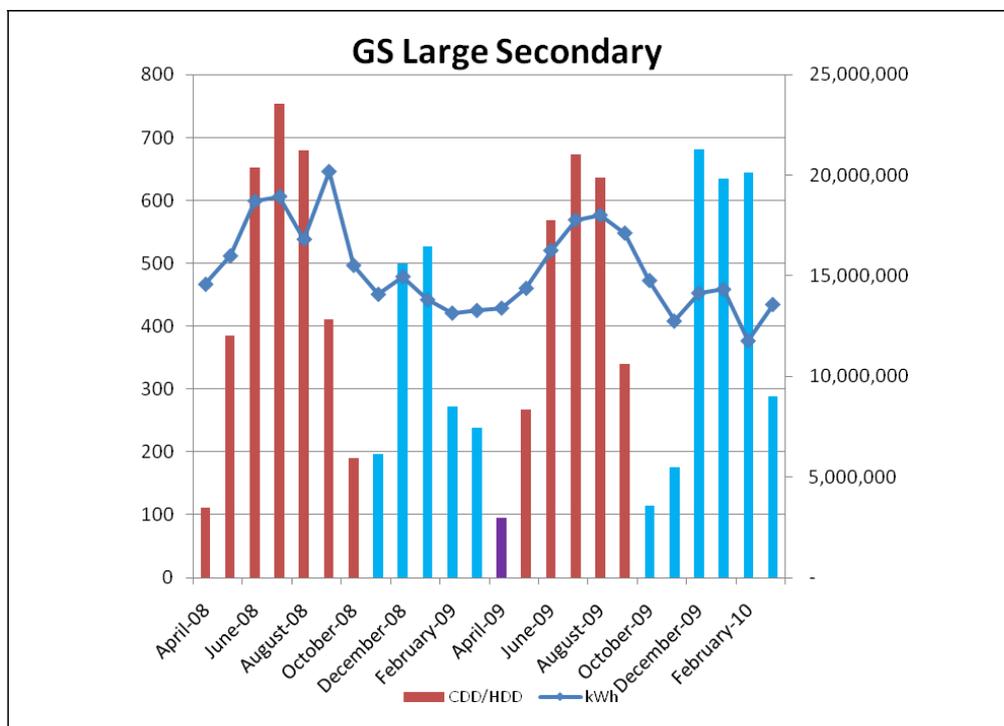
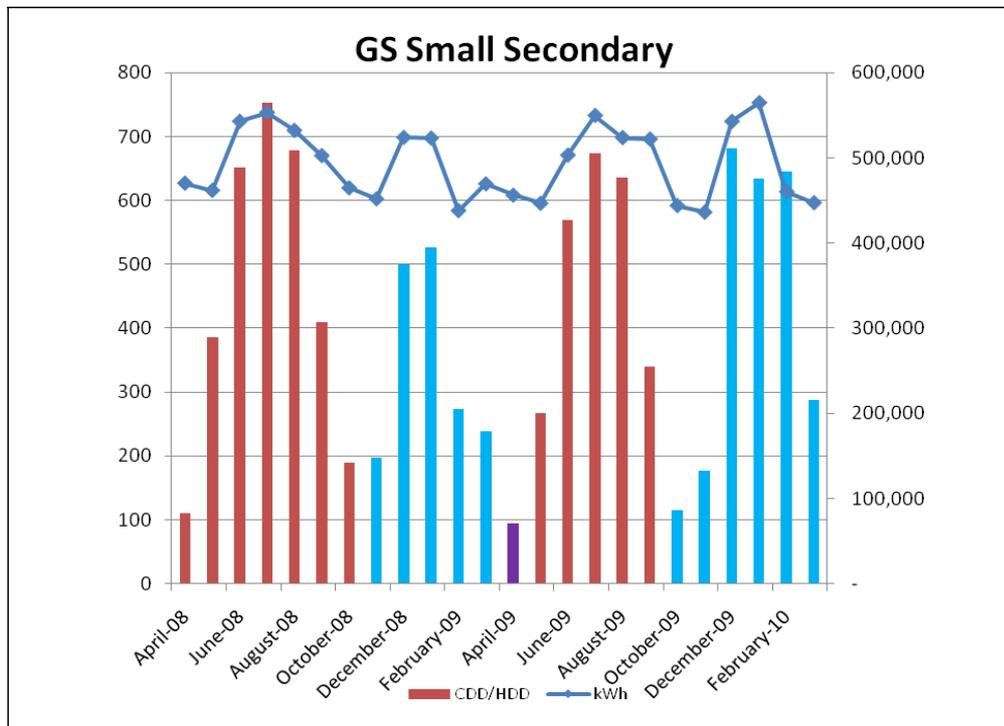


However, as noted in the commercial class charts, shown below, there is a slightly weaker correlation in the 2008 and 2009 time period between temperature and electric consumption that exists with the residential customer class. This is not to say that there is not a correlation between temperature and electric consumption for commercial customers, since electric consumption is still following a typical weather usage pattern, but usage by commercial customers involves more than just cooling and heating and will not increase or decline as significantly as the residential usage will when compared to weather. It should be noted that total electric consumption by customer class was provided from Oncor's books and records; however, customer counts by customer class were requested of Oncor, but were not provided. Therefore, we are unable to ascertain if total electric consumption for commercial customers was influenced by a loss of commercial accounts.

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Because of the influence of temperature on electric consumption, it is recommended that the City closely follow the fluctuations in weather, not only annually, but also quarterly, that can directly impact the amount of electric franchise fee revenue received by the City. Tracking the fluctuations of weather will allow the City to better plan for potential electric franchise fee revenue shortfalls, as well as provide possible explanations to City management and elected officials of variations in electric franchise revenues. In addition to tracking the fluctuations of weather, it is recommended that the City remain attentive to the influence economic conditions can have on electric consumption by its commercial customers, which directly impacts electric franchise fee revenue.

2. Fee on Fee Revenue related to Contributions in Aid of Construction

Oncor collects Contributions in Aid of Construction ("CIAC") from customers/developers to fund capital expenditures. CIAC collections from customers/developers include an additional charge of 4% of the construction costs to ostensibly collect the franchise fees that are to be paid to the City in accordance with the Franchise Agreement. This 4% of the CIAC that is collected and ultimately remitted to the City as franchise fees is also revenue to the Company. Therefore, the Company should not only include the CIAC receipts when computing the 4% franchise fee, but also should include the 4% collected from the customer/developer when determining the **gross** revenue from the transaction. During the on-site review of Oncor's financial records, J. Stowe & Co. determined that, although Oncor is remitting the 4% franchise fee related to CIAC in accordance with the Franchise Agreement, the Company is not remitting the required 4% franchise fee on this franchise fee revenue; often referred to as "fee on fee."

The issue of how the actual collection of franchise fees on a customer's bill should be treated when determining gross revenue was litigated in a cable services case concerning the underpayment of franchise fees. On July 31, 1997, the United States Court of Appeals for the 5th Circuit issued a decision in City of Dallas v. Federal Communications Commission which stated that the definition of "gross revenue" includes "all revenues, without deduction." As such, under this decision, revenues received by the Company for payment of franchise fees should also be included in the calculation of franchise fees to be remitted to the City.

In an effort to determine the fees due the City as a result of Oncor's failure to pay fee on fee revenue for CIAC, we reviewed CIAC revenue associated with inside City limit customers. As franchise fees are only remitted once per year, the date that we reviewed was for the payment made in April 2009 and April 2010 for the actual collection period of January 2008 through December 2009. Based on this two-year period, the Company collected a total of \$1,693,900 in CIAC, of which \$67,756 ($\$1,693,900 \times 4\%$) was ultimately remitted to the City in franchise fees on CIAC. As such, the City is due an additional \$2,710 in franchise fees ($\$67,756 \times 4\%$) to account for fee on fee revenue. Attachment A illustrates this calculation and provides additional detail supporting the computation.

3. Impact of Changes to Discretionary Service Charges Included in Franchise Fee Computations

Under the City's current Franchise Agreement, as amended, the Company has agreed to pay a 4% franchise fee on discretionary service charge revenue denoted as DD1 – DD24 within the Company's service tariff effective January 1, 2002. However, since that time, Oncor has made significant changes to the level of its discretionary service charges and how such charges are applied. The following discusses these changes in more detail.

Oncor's discretionary service charges which were in effect as of January 1, 2002, at the time the current amendment was executed, were subsequently amended in July 2007, September 2009, and September 2010. From July 2007 to September 2009, the changes in fees by Oncor reduced the Company's discretionary service charge revenue by approximately 41%.² While the decrease in discretionary service charges benefits consumers, the decrease in discretionary service charge revenue reduces the amount of franchise fees due to the fact that this component of franchise fee payments continues to be based on a percentage of revenue rather than a factor multiplied by the kilowatt hours sold.

In an effort to quantify the reduction in fee revenue that could potentially be experienced by the City due to these changes, we requested that Oncor provide the number of transactions within the City that occurred for each applicable discretionary service charge in 2008 and 2009. However, according to the Company, they do not maintain this information. As such, we have estimated the number of transactions that were experienced based on the reported revenue in these two years and, using an average number of transactions from these two years, applied the applicable charges for July 2007, September 2009, and September 2010.

Based on this analysis using the available information, it is estimated that the City could see a potential reduction in franchise fee revenue from discretionary service charges of approximately 35% to 40% with the application of the September 2009 rates. Further, with the additional changes to discretionary service charges effective September 2010, we are estimating that the total reduction in franchise fee revenue from discretionary service charges could range from 45% to 50%. The chart below illustrates the estimated impact of these changes on the level of franchise fees received from discretionary charges by the City in 2008.

² Based on discretionary service charges approved in PUC Docket No. 35717, applicable to all customers

Table 1 Estimated Impact of Reduction in Discretionary Service Charges		
2008 Discretionary Service Charges (Exclusive of CIAC)	\$ 308,816	
Franchise Fee Factor	4%	
Total Franchise Fees from Discretionary Service Charges	<u>\$ 12,353</u>	
	Estimated Reduction in Franchise Fee Revenue	
	Low Estimate	High Estimate
Reduction From July 2007 to September 2009 Rates (%)	35%	40%
Estimated Reduction in Annual Franchise Fees	\$ (4,324)	\$ (4,941)
Reduction from July 2007 to September 2010 Rates (%)	45%	50%
Estimated Reduction in Annual Franchise Fees	\$ (5,559)	\$ (6,177)

J. Stowe & Co. reiterates that the above numbers are estimations based on assumptions made regarding the average number of transactions experienced during a given year and may not accurately reflect the actual reductions that may be experienced by the City. The above is presented to illustrate the potential impact of these changes on the City and should not be relied on beyond the stated purpose and intent.

4. New Discretionary Service Charges Not Included in Franchise Fee Computations

As previously stated, the Company has agreed to pay franchise fees on discretionary service charges designated as DD1 to DD24 in the 2002 tariff. Since that time, the Company has changed the nomenclature for these same charges to differentiate between “standard charges” and other charges. In order to ensure that Oncor has continued to pay on the original D1 through DD24, we asked that the Company provide a matrix of all of these changes through the implementation of the September 2009 rates. The Company’s response is included herein at Attachment B.

A comparison of the matrix and the various changes to the tariff for discretionary service charges showed that Oncor has introduced new discretionary service charges that are not currently included in the computation of franchise fees. Attachment C provides a listing of these.

In our opinion, revenue received from these discretionary service charges should be included to the extent the following criteria are met:

- The charges are for services provided to retail electric customers;
- The charges were not in existence in 2002 under any of the tariffs applicable at that time; and
- Oncor receives revenue from these charges within the City’s jurisdiction.

With respect to the first criterion, the amendment to the Franchise Agreement adopted in 2002 was premised on the City agreeing to the Compromise, Settlement, and Release Agreement attached hereto as Attachment D.³ On page 2 of that settlement, Oncor agreed:

“. . . at the election of the City, provide that the Discretionary Services Charges identified in Section 6.1.2 of the Tariff for Retail Delivery applicable to Oncor which are **directly paid by the customer** and which are those charges identified as items DD1 through and inclusive of DD24 in said tariff, shall be subject to an additional franchise fee based on 4% of such charges. . .”*emphasis added+

At the time of this settlement, there were only two other discretionary charges in the existing Section 6.1.2. that were not to be included in the computation of franchise fees. These were DD25 and DD26. DD25 included charges based on customer changes in service to another REP. DD26 was for miscellaneous charges. By accepting the terms of the compromise, the Cities agreed not to include these charges.

However, because the intent of the settlement was to include all discretionary charges (with the above two exceptions) that were directly paid by the customer, any addition to the 2002 tariff should be evaluated as to whether it meets this criterion. To the extent that it does, Oncor should automatically adjust its computation to include revenue received from these charges. Based on the settlement, it is clear that the intent at the time was to include all discretionary service charges within only the exception of the two noted above.

5. Impact of Not Including Discretionary Service Charges in kWh Factor

Per the provisions of Section 33.008(b) of the Texas Utilities Code, the primary payment of franchise fees by the Company to the City is based on kWh consumption multiplied times a factor that remains static each year. It was the settlement of the lawsuit against TXU Energy and the resulting amendment to the existing franchise that provided for the inclusion of discretionary service charges in the franchise fee payment.

In reviewing the recent changes in the discretionary service charges identified above, it appears that the bifurcation of methodologies in computing the total franchise fees results in an underpayment to the City. More specifically, having a factor based on 1998 franchise fees used for the kWh amount and supplementing that with a 4% discretionary service charge fee computation does not, in our opinion, accurately reflect the intent of Section 33.008(b).

The lawsuit against TXU Energy included the argument that TXU Energy should have been including discretionary service charges in the computation of franchise fees. The suit was filed prior to the implementation of Section 33.008(b) and therefore, in our opinion, the resolution of the case should have been taken into account when the factor was derived. Because TXU Energy had erred in its computation of franchise fees in 1998 (by excluding revenue from discretionary service charges) the amount of the proper franchise fees on which to compute the

³ Settlement of *City of Denton, Texas et al. vs. TXU Electric Company et al.*, the litigation that resulted in the compromise to include franchise fee payment on discretionary service charges.

factors is understated. This fact has only come to light with the continuing reductions by Oncor to the discretionary service charge rates and the separate computation of 4% of revenue as the basis for current payments.

To quantify the impact of combining of the statutory factor and discretionary service charge fees at 4% of revenue, we added the discretionary service charge franchise fees received by the City in 2008 to the 1998 level of franchise fees as provided by the Company.⁴ The resulting adjusted amount was then divided by the kWh consumption in 1998 to calculate an adjusted statutory factor. By estimating the adjusted franchise fees for the 1998 period to include discretionary service charges, the kWh factor would increase approximately 1.59% from \$0.002784 to \$0.002828. These calculations are illustrated and further detailed in Attachment E.

If the Company had been paying total franchise fees on the basis of the statutory factor, instead of computing the separate 4% on discretionary service charges, the City would have received an estimated additional \$261 annually.⁵

Given the changes to discretionary service charges by the Company since July 2007, it appears that legislative efforts to amend the calculation of the statutory factor under the Texas Utilities Code, as illustrated above, may help to stabilize the franchise fees received by the City, particularly given potential future reductions to discretionary service charges by the Company. In our opinion, the intent of the law at the time it was passed was to provide the Cities with the same level of franchise fees *appropriately paid* under the terms of the franchise agreements in 1998. As the Denton lawsuit addressed, the appropriate fees were not paid in 1998 and should be amended to reflect the accurate payments based on discretionary service charges received in 1998.

RECOMMENDATIONS

Based on the information provided, we recommend that following:

1. Request remittance from Oncor of \$2,710 for the exclusion of franchise fee revenue received from customers/developer associated with CIAC;
2. Discuss with Oncor an amendment to the current franchise to ensure that all new discretionary service charge revenue is included, to the extent that the service is paid directly by the customer;
3. Have Oncor provide the discretionary service charges received in 1998 to estimate the impact on the statutory factor; and,

⁴ We note that we used the 2008 level of discretionary service charges as we did not have the 1998 amounts due to the limitation of 2 years for purposes of conducting a review. The computation also includes the additional "fee on fee" discussed earlier in this report.

⁵ The CIAC received in 2009 was abnormally high due to the construction activities. We have excluded this amount in the computation.

Mr. Craig Hametner

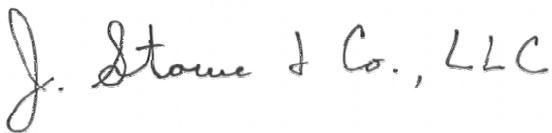
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4. Discuss with Oncor the possibility of amending the Franchise Agreement to include a change in the current statutory factor based on inclusion of discretionary service charges received in 1998.

J. Stowe & Co. appreciates the opportunity to assist the City of Garland in conducting this review and stands ready to answer any questions you and/or your City Council may have regarding the contents of this report. Should you have questions, please do not hesitate to contact Ms. Connie Cannady at 972.680.2000 or via e-mail at ccannady@jstoweco.com.

Very Truly Yours,

A handwritten signature in black ink that reads "J. Stowe & Co., LLC". The signature is written in a cursive, flowing style.

J. Stowe & Co., LLC

City of Garland, Texas
 Franchise Fee Review - Oncor
 Calculation of Fee on Fee due for Contributions in Aid of Construction

<u>Date</u>	<u>CIAC Amount</u>	<u>Fee Amount</u>	<u>Fee on Fee</u>	<u>Quarterly Fee on Fee Totals</u>
Jan-08	\$ 1,323	53	2	
Feb-08	110,548	4,422	177	
Mar-08	1,967	79	3	\$ 182
Apr-08	-	-	-	
May-08	-	-	-	
Jun-08	-	-	-	-
Jul-08	-	-	-	
Aug-08	346	14	1	
Sep-08	577	23	1	1
Oct-08	-	-	-	
Nov-08	16,167	647	26	
Dec-08	13,962	558	22	48
Jan-09	4,259	170	7	
Feb-09	3,009	120	5	
Mar-09	-	-	-	12
Apr-09	1,157	46	2	
May-09	5,499	220	9	
Jun-09	14,256	570	23	33
Jul-09	3,903	156	6	
Aug-09	15,939	638	26	
Sep-09	-	-	-	32
Oct-09	-	-	-	
Nov-09	-	-	-	
Dec-09	1,500,988	60,040	2,402	2,402
	\$ 1,693,900	\$ 67,756	\$ 2,710	\$ 2,710

Onco Electric Delivery Company LLC
Franchise Fee Applicable Discretionary Service Charges

Market Open Charge ID	Sub ID	Discretionary Service Charge	Market Open Rate	July 2007 Charge ID	Sub ID	Discretionary Service Charge	July 2007 Rate	Sept 2009 Charge ID	Sub ID	Discretionary Service Charge	Sept 2009 Rate
DD09		Facilities Relocation/Removal	As Calc	DD09		Facilities Relocation/Removal	As Calc	DD02		Facilities Relocation/Removal	As Calc
DD10	A	Meter Test	\$23.00	SD7	SC Meter III	Meter Test	\$23.00	SD7	SC Meter III	Meter Test	\$23.00
DD10	B	Single Phase Self-Contained	\$44.00	SD7	SC Meter IV	Single Phase Self-Contained	\$44.00	SD7	SC Meter IV	Single Phase Self-Contained	\$44.00
DD10	C	Three Phase Self-Contained	\$71.00	SD7	CT/Other III	Three Phase Self-Contained	\$71.00	SD7	CT/Other III	Three Phase Self-Contained	\$71.00
DD10	D	Single Phase Instrument Rated	\$94.00	SD7	CT/Other IV	Single Phase Instrument Rated	\$94.00	SD7	CT/Other IV	Single Phase Instrument Rated	\$94.00
		Three Phase Instrument Rated	\$94.00	SD7	Comp. Mtr	Three Phase Instrument Rated	\$94.00	SD7	Comp. Mtr	Three Phase Instrument Rated	\$94.00
DD11		PCB Inquiry and Testing	\$125.00	DD11		PCB Inquiry and Testing	\$125.00	DD11		PCB Inquiry and Testing	\$125.00
DD11	A	Up to Four Transformers	\$20.00	DD11	A	Up to Four Transformers	\$20.00	DD11	A	Up to Four Transformers	\$20.00
DD11	B	Each Additional	As Calc	DD11	B	Each Additional	As Calc	DD11	B	Each Additional	As Calc
DD11	C	Lab Testing	As Calc	DD11	C	Lab Testing	As Calc	DD11	C	Lab Testing	As Calc
DD12		Service Call	\$50.00	SD13	I	Service Call	\$50.00	SD13	I	Service Call	\$50.00
DD12	B	Normal Hrs	\$50.00	SD13	II	Normal Hrs	\$50.00	SD13	II	Normal Hrs	\$50.00
DD12	C	Business Days After Hrs	\$50.00	SD13	III	Business Days After Hrs	\$50.00	SD13	III	Business Days After Hrs	\$50.00
DD12	D	Weekend	\$50.00	SD13	IV	Weekend	\$50.00	SD13	IV	Weekend	\$50.00
DD12		Service Call	\$50.00	SD13		Service Call	\$50.00	SD13		Service Call	\$50.00
DD12		Service Call	\$50.00	SD13		Service Call	\$50.00	SD13		Service Call	\$50.00
DD12		Service Call	\$50.00	SD13		Service Call	\$50.00	SD13		Service Call	\$50.00
DD13		Tampering	\$147.00	SD17		Tampering	As Calc	SD17		Tampering	As Calc
DD14		OMR Equipment Installation	\$86.00	SD10		OMR Equipment Installation	\$86.00	SD10		OMR Equipment Installation	\$86.00
DD14	A	Regular Hours	\$152.00	DD14	A	Regular Hours	\$152.00	DD14	A	Regular Hours	\$152.00
DD14	B	Outside Regular Hours Non-Holiday	\$178.00	DD14	B	Outside Regular Hours Non-Holiday	\$178.00	DD14	B	Outside Regular Hours Non-Holiday	\$178.00
DD14	C	Outside Regular Hours Holiday	\$178.00	DD14	C	Outside Regular Hours Holiday	\$178.00	DD14	C	Outside Regular Hours Holiday	\$178.00
DD15		AMR Equipment Installation	\$202.00	SD11		AMR Equipment Installation	\$202.00	SD11		AMR Equipment Installation	\$202.00
DD15	A	Single Phase Self-Contained	\$259.00	SD11	SPSC	Single Phase Self-Contained - Normal Hrs	\$259.00	SD11	SPSC	Single Phase Self-Contained - Normal Hrs	\$259.00
DD15	B	Three Phase Self-Contained	\$259.00	SD11	TFSC	Three Phase Self-Contained - Normal Hrs	\$259.00	SD11	TFSC	Three Phase Self-Contained - Normal Hrs	\$259.00
DD15	C	Single Phase Instrument Rated	\$420.00	SD11	SPIR	Single Phase Instrument Rated - Normal Hrs	\$420.00	SD11	SPIR	Single Phase Instrument Rated - Normal Hrs	\$420.00
DD15	D	Three Phase Instrument Rated	\$420.00	SD11	TPIR	Three Phase Instrument Rated - Normal Hrs	\$420.00	SD11	TPIR	Three Phase Instrument Rated - Normal Hrs	\$420.00
DD16		AMR Reading	\$1.50	DD16	A	AMR Reading	\$1.50	DD16	A	AMR Reading	\$1.50
DD16	B	Cycle	\$6.10	DD16	B	Cycle	\$6.10	DD16	B	Cycle	\$6.10
DD16		AMR Reading	\$1.50	DD16		AMR Reading	\$1.50	DD16		AMR Reading	\$1.50
DD16		AMR Reading	\$1.50	DD16		AMR Reading	\$1.50	DD16		AMR Reading	\$1.50
DD16		AMR Reading	\$1.50	DD16		AMR Reading	\$1.50	DD16		AMR Reading	\$1.50
DD16		AMR Reading	\$1.50	DD16		AMR Reading	\$1.50	DD16		AMR Reading	\$1.50
DD17		Advanced IDR Equipment Installation	As Calc	SD12		Advanced IDR Equipment Installation	As Calc	SD12		Advanced IDR Equipment Installation	As Calc
DD18		Advanced IDR Equipment Maintenance	\$7.00	DD18		Advanced IDR Equipment Maintenance	\$7.00	DD18		Advanced IDR Equipment Maintenance	\$7.00
DD19		Electrical Pulse Equipment Installation/Replacement	\$330.00	DD19		Electrical Pulse Equipment Installation/Replacement	\$330.00	DD19		Electrical Pulse Equipment Installation/Replacement	\$330.00
DD19	A	Installation	\$212.00	DD19	A	Installation	\$212.00	DD19	A	Installation	\$212.00
DD19	B1	Replacement - Isolation Relay	\$125.00	DD19	B1	Replacement - Isolation Relay	\$125.00	DD19	B1	Replacement - Isolation Relay	\$125.00
DD19	B2	Replacement - Pulse Initiator	\$272.00	DD19	B2	Replacement - Pulse Initiator	\$272.00	DD19	B2	Replacement - Pulse Initiator	\$272.00
DD19	B3	Replacement - Isolation Relay and Pulse Initiator	\$119.00	DD19	B3	Replacement - Isolation Relay and Pulse Initiator	\$119.00	DD19	B3	Replacement - Isolation Relay and Pulse Initiator	\$119.00
DD19	B4	Enclosure Box	\$10.00	DD19	B4	Enclosure Box	\$10.00	DD19	B4	Enclosure Box	\$10.00
DD20		Electrical Pulse Equipment Maintenance	\$566.00	DD20		Electrical Pulse Equipment Maintenance	\$566.00	DD20		Electrical Pulse Equipment Maintenance	\$566.00
DD21		Dual Socket Meter Adapter Installation	As Calc	DD21		Dual Socket Meter Adapter Installation	As Calc	DD21		Dual Socket Meter Adapter Installation	As Calc
DD22		Power Factor Correction Equipment Installation	As Calc	DD22		Power Factor Correction Equipment Installation	As Calc	DD22		Power Factor Correction Equipment Installation	As Calc
DD23		Non-Std Service Equip Inspection/Testing	\$58.00	DD23		Non-Std Service Equip Inspection/Testing	\$58.00	DD23		Non-Std Service Equip Inspection/Testing	\$58.00

Onvor Electric Delivery Company LLC
Franchise Fee Applicable Discretionary Service Charges

Market Open Charge ID	Sub ID	Discretionary Service Charge	Market Open Rate	July 2007 Charge ID	Sub ID	Discretionary Service Charge	July 2007 Rate	Sept 2009 Charge ID	Sub ID	Discretionary Service Charge	Sept 2009 Rate
DD24	A1	Distributed Generation Pre-Interconnection Study Fee	\$0.00	DD24	A1	Distributed Generation Pre-Interconnection Study Fee	\$0.00	DD36	A1	Distributed Generation Pre-Interconnection Study Fee	\$0.00
	A2	Non-Exp 0 - 10 kW Not Pre-Cert not on Network	\$220.00		A2	Non-Exp 0 - 10 kW Not Pre-Cert not on Network	\$220.00		A2	Non-Exp 0 - 10 kW Not Pre-Cert not on Network	\$185.95
	A3	Non-Exp 0 - 10 kW Not Pre-Cert not on Network	\$300.00		A3	Non-Exp 0 - 10 kW Not Pre-Cert not on Network	\$300.00		A3	Non-Exp 0 - 10 kW Not Pre-Cert not on Network	\$151.30
	B1	Non-Exp 10+ - 500 kW Not Pre-Cert not on Network	\$180.00		B1	Non-Exp 10+ - 500 kW Not Pre-Cert not on Network	\$180.00		B1	Non-Exp 10+ - 500 kW Not Pre-Cert not on Network	\$252.20
	B2	Non-Exp 10+ - 500 kW Not Pre-Cert not on Network	\$320.00		B2	Non-Exp 10+ - 500 kW Not Pre-Cert not on Network	\$320.00		B2	Non-Exp 10+ - 500 kW Not Pre-Cert not on Network	\$138.70
	B3	Non-Exp 10+ - 500 kW Not Pre-Cert not on Network	\$360.00		B3	Non-Exp 10+ - 500 kW Not Pre-Cert not on Network	\$360.00		B3	Non-Exp 10+ - 500 kW Not Pre-Cert not on Network	\$238.60
	B4	Non-Exp 10+ - 500 kW Not Pre-Cert not on Network	\$1,725.00		B4	Non-Exp 10+ - 500 kW Not Pre-Cert not on Network	\$1,725.00		B4	Non-Exp 10+ - 500 kW Not Pre-Cert not on Network	\$718.75
	C1	Non-Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$510.00		C1	Non-Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$510.00		C1	Non-Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$290.30
	C2	Non-Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$650.00		C2	Non-Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$650.00		C2	Non-Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$491.50
	C3	Non-Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$2,550.00		C3	Non-Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$2,550.00		C3	Non-Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$1,941.55
	C4	Non-Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$2,550.00		C4	Non-Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$2,550.00		C4	Non-Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$1,941.55
	D1	Non-Exp 2000+ kW Not Pre-Cert not on Network	\$660.00		D1	Non-Exp 2000+ kW Not Pre-Cert not on Network	\$660.00		D1	Non-Exp 2000+ kW Not Pre-Cert not on Network	\$655.70
	D2	Non-Exp 2000+ kW Not Pre-Cert not on Network	\$100.00		D2	Non-Exp 2000+ kW Not Pre-Cert not on Network	\$100.00		D2	Non-Exp 2000+ kW Not Pre-Cert not on Network	\$2,262.40
	D3	Non-Exp 2000+ kW Not Pre-Cert not on Network	\$3,000.00		D3	Non-Exp 2000+ kW Not Pre-Cert not on Network	\$3,000.00		D3	Non-Exp 2000+ kW Not Pre-Cert not on Network	\$2,771.20
	D4	Non-Exp 2000+ kW Not Pre-Cert not on Network	\$3,655.00		D4	Non-Exp 2000+ kW Not Pre-Cert not on Network	\$3,655.00		D4	Non-Exp 2000+ kW Not Pre-Cert not on Network	\$2,771.20
	A1	Exp 0 - 10 kW Not Pre-Cert not on Network	\$0.00		A1	Exp 0 - 10 kW Not Pre-Cert not on Network	\$0.00		A1	Exp 0 - 10 kW Not Pre-Cert not on Network	\$163.95
	A2	Exp 0 - 10 kW Not Pre-Cert not on Network	\$220.00		A2	Exp 0 - 10 kW Not Pre-Cert not on Network	\$220.00		A2	Exp 0 - 10 kW Not Pre-Cert not on Network	\$151.30
	A3	Exp 0 - 10 kW Not Pre-Cert not on Network	\$300.00		A3	Exp 0 - 10 kW Not Pre-Cert not on Network	\$300.00		A3	Exp 0 - 10 kW Not Pre-Cert not on Network	\$252.20
	A4	Exp 0 - 10 kW Not Pre-Cert not on Network	\$180.00		A4	Exp 0 - 10 kW Not Pre-Cert not on Network	\$180.00		A4	Exp 0 - 10 kW Not Pre-Cert not on Network	\$138.70
	B1	Exp 10+ - 500 kW Not Pre-Cert not on Network	\$320.00		B1	Exp 10+ - 500 kW Not Pre-Cert not on Network	\$320.00		B1	Exp 10+ - 500 kW Not Pre-Cert not on Network	\$238.60
	B2	Exp 10+ - 500 kW Not Pre-Cert not on Network	\$320.00		B2	Exp 10+ - 500 kW Not Pre-Cert not on Network	\$320.00		B2	Exp 10+ - 500 kW Not Pre-Cert not on Network	\$185.95
	B3	Exp 10+ - 500 kW Not Pre-Cert not on Network	\$1,290.00		B3	Exp 10+ - 500 kW Not Pre-Cert not on Network	\$1,290.00		B3	Exp 10+ - 500 kW Not Pre-Cert not on Network	\$938.50
	B4	Exp 10+ - 500 kW Not Pre-Cert not on Network	\$1,890.00		B4	Exp 10+ - 500 kW Not Pre-Cert not on Network	\$1,890.00		B4	Exp 10+ - 500 kW Not Pre-Cert not on Network	\$1,437.55
	C1	Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$510.00		C1	Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$510.00		C1	Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$290.30
	C2	Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$650.00		C2	Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$650.00		C2	Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$491.50
	C3	Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$3,300.00		C3	Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$3,300.00		C3	Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$2,508.40
	C4	Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$3,440.00		C4	Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$3,440.00		C4	Exp 500+ - 2000 kW Not Pre-Cert not on Network	\$2,610.25
	D1	Exp 2000+ kW Not Pre-Cert not on Network	\$660.00		D1	Exp 2000+ kW Not Pre-Cert not on Network	\$660.00		D1	Exp 2000+ kW Not Pre-Cert not on Network	\$655.70
	D2	Exp 2000+ kW Not Pre-Cert not on Network	\$1,000.00		D2	Exp 2000+ kW Not Pre-Cert not on Network	\$1,000.00		D2	Exp 2000+ kW Not Pre-Cert not on Network	\$756.50
	D3	Exp 2000+ kW Not Pre-Cert not on Network	\$3,650.00		D3	Exp 2000+ kW Not Pre-Cert not on Network	\$3,650.00		D3	Exp 2000+ kW Not Pre-Cert not on Network	\$2,774.20
	D4	Exp 2000+ kW Not Pre-Cert not on Network	\$3,780.00		D4	Exp 2000+ kW Not Pre-Cert not on Network	\$3,780.00		D4	Exp 2000+ kW Not Pre-Cert not on Network	\$2,875.10

Not included in Original DD1 - DD24

City of Garland, Texas
Franchise Fee Review - Oncor
New Discretionary Service Charges - Post 2002

Charge ID	Sub ID	Notes / Discretionary Service Charge	Sept 2010 Rate
SD14		Security Lighting Repair	As Calc
SD15		Security Light Removal	As Calc
SD16		Street Light Removal	As Calc
SD18		Broken Meter Seal	\$ 18.80
SD19		Inaccessible Meter Charge	\$ 109.60
DD1		Delivery System Facilities Relocation/Removal Study	As Calc
DD3	A	Competitive Meter Removal/Installation Service - Self Contained Meter	\$ 90.50
DD3	B	Competitive Meter Removal/Installation Service - Instrument Rated Meter	\$ 154.50
DD3	C	Competitive Meter Removal/Installation Service - IDR Meter	\$ 181.15
DD4	A	Competitive Meter Physical Access Equipment Installation Service - No addtl service call	\$ 26.65
DD4	B	Competitive Meter Physical Access Equipment Installation Service - addtl service call	\$ 48.00
DD5		Emergency Restoration Service	As Calc
DD15	A	Denial of Access - Disconnection	\$ 32.55
DD15	B	Denial of Access - Reconnection	\$ 37.00
DD16		Meter Investigation Charge	\$ 16.70
DD17	A	Meter Non-standard Programming - Prior to Installation	\$ 21.70
DD17	B	Meter Non-standard Programming - Previously Installed Meter	\$ 53.35
DD18		Meter Communication Service Fee	\$ 106.10
DD21		Customer Premise Information Research	As Calc
DD27		Street Light Painting	As Calc
DD28		Street Light and Other Pole Straightening	As Calc
DD29		Street Light Patrolling	As Calc
DD30		Street Light Numbering	As Calc
DD31		Street Light Circuit Bulb and PhotoCell Replacement	As Calc
DD32		Advance Metering Pre-pay Customer Connect/Disconnect	\$ -
DD33		Advance Metering Time of Use Programming	\$ -
DD34		Evaluation of Retail Electric Provider Requests for Non-standard Advance Meters	As Calc
DD35		Cost Differential for Non-standard Advanced Meters	As Calc
DD37		Distributed Renewable Generation Metering	As Calc

COMPROMISE, SETTLEMENT AND RELEASE AGREEMENT

This Compromise, Settlement, and Release Agreement (the "Agreement") is made and entered into as of the date set forth below by and between the City of _____ (the "City") and TXU Electric Company n/k/a TXU US Holdings Company ("TXU Electric"), TXU Gas Company ("TXU Gas") and TXU Corp. (collectively sometimes referred to as the "TXU Defendants"):

WHEREAS, there is currently pending in the 134th Judicial District Court of Dallas County, Texas, in Cause No. 00-9383, a suit styled *City of Denton, Texas et al. vs. TXU Electric Company, et al.* (the "Litigation") which includes claims by the City against the TXU Defendants arising out of the electric and gas franchise ordinances entered into by and between the City and TXU Electric and TXU Gas and, specifically, a dispute with regard to the amount of franchise fees paid to the City by TXU Electric and TXU Gas;

WHEREAS, the City and the TXU Defendants have compromised and settled all claims asserted in the Litigation;

NOW, THEREFORE, in order to settle and finally resolve the causes of action asserted in the Litigation and to fully and finally resolve all disputes and claims arising out of the calculation and payment of franchise fees to the City by TXU Electric and TXU Gas prior to and through December 31, 2001, for the mutual promises and covenants set forth in this Agreement, the adequacy and sufficiency of which consideration is acknowledged, and, without the TXU Defendants having admitted any of the validity of any allegations made in the Litigation, the City and the TXU Defendants agree as follows:

1. AMENDMENTS TO THE ELECTRIC FRANCHISE ORDINANCE

As the result of electric industry restructuring, the electric franchise formerly held by TXU Electric has been assigned to Oncor Electric Delivery Company ("Oncor"), accordingly, effective January 1, 2002, the City agrees to enter into and TXU Electric agrees to cause Oncor to

accept an amendment to the current electric franchise ordinance substantially in the form of the amendment attached as Exhibit A which amendment shall, at the election of the City, provide that the Discretionary Services Charges identified in Section 6.1.2 of the Tariff for Retail Delivery applicable to Oncor which are directly paid by the customer and which are those charges identified as items DD1 through and inclusive of DD24 in said tariff, shall be subject to an additional franchise fee based on 4% of such charges which additional franchise fee shall be paid to the City pursuant to the terms of the amendment attached as Exhibit A. The City acknowledges that Oncor may file with the Texas Public Utility Commission and/or the City a tariff amendment in compliance with the terms of this agreement, which will provide that Oncor shall have the right to collect from the customer the franchise fee on such Discretionary Service Charges such that the customer shall bear 100% of the franchise fee on such Discretionary Service Charges. The City acknowledges that Oncor is an intended third-party beneficiary of this agreement and agrees to cooperate with Oncor in order for Oncor to pass through to customers the entire franchise fee on such Discretionary Service Charges by taking the following actions: (i) to the extent the City acts as regulatory authority, by adopting and approving that portion of any tariff in compliance with the terms of this Agreement which provides for 100% recovery of such franchise fees; (ii) in the event the City intervenes in any regulatory proceeding before a federal or state agency in which the recovery of the franchise fees on such Discretionary Service Charges is an issue, the City will take an affirmative position supporting the 100% recovery of such franchise fees by Oncor and; (iii) in the event of an appeal of any such regulatory proceeding in which the City has intervened, the City will take an affirmative position in any such appeals in support of the 100% recovery of such franchise fees by Oncor. The City further agrees not to take any action to prevent the recovery of the franchise fees on such Discretionary Service Charges by Oncor and to take other action which may be reasonably requested by Oncor to provide for the 100% recovery of such franchise fees by Oncor.

City of Garland, Texas Franchise Fee Review - Oncor Estimated Modified kWh Factor including Discretionary Charges

1998 Fees	\$	1,153,877
2008 Discretionary Charges (Excluding CIAC)	\$	308,816
Franchise Fee Factor		4.00%
Franchise Fees on Discretionary Charges	\$	12,353
2008 CIAC	\$	144,890
Franchise Fee Factor		4.00%
Franchise Fees on CIAC	\$	5,796
Fee on Fee Factor		4.00%
CIAC Fee on Fee	\$	232
 Total Fees for Factor	 \$	 1,172,257
 1998 kWh		 414,467,790
Modified Factor (Cents / kWh)	\$	0.002828
1998 Factor		0.002784
Variance (\$)	\$	0.000044
Variance (%)		1.59%

Quarter	Total kWh	Fees @ 1998		Fees @ Modified		Variance
		Factor ⁽¹⁾		Factor		
2nd Quarter 2008	102,059,982	\$	284,135	\$	288,661	\$ 4,526
3rd Quarter 2008	136,024,663		378,693		384,725	6,032
4th Quarter 2008	93,136,801		259,293		263,423	4,130
1st Quarter 2009	94,052,097		261,841		266,012	4,171
2nd Quarter 2009	92,981,732		258,861		262,984	4,123
3rd Quarter 2009	131,244,404		365,384		371,204	5,820
4th Quarter 2009	89,091,925		248,032		251,983	3,951
1st Quarter 2010	102,168,222		284,436		288,967	4,531
Total	840,759,826	\$	2,340,675	\$	2,377,958	\$ 37,283

Average Annual Discretionary Charges under Modified kWh Factor	\$	18,641
Discretionary Service Charge Fees Received in 2008 (adjusted to include Fee on Fee for CIAC)		18,380
Variance	\$	261

Note:

(1) Fees are calculated based on 1998 factor without consideration for additional fees received when factor was temporarily increased by Oncor